ISSUE

Compliance Supplement Pool

The U.S. EPA's final NOx SIP call included provisions for establishing a pool of NOx emissions allowances that would be available to sources that could not implement required control measures by 2003 or that made reductions in advance of the 2003 compliance date. The compliance supplement pool was established on a state by state basis and the amount of allowances in the pool was calculated based on the amount of NOx reductions required within an individual state. The amount of NOx allowances in the compliance supplement pool for Indiana is 19,738 tons.

The final federal rule presented two options for distribution of the compliance supplement pool. Sources could install controls and monitoring systems prior to 2003 and generate early reduction credits. The source could then submit a request to receive NOx allowances from the compliance supplement pool in the amount of the early reduction credits and could sell or transfer those allowances to other sources that could not meet the May 1, 2003 compliance deadline or the allowances could be used for other units at the same source. The other option is for those sources that could not generate early reduction credits or could not implement the required control measures by the deadline. Under this option, a source could request NOx allowances based on need. The source would have to include with the request a demonstration of need that showed that the source could not generate reduction credits, could not buy or otherwise receive NOx allowances from another source, or could not install the controls due to electricity reliability issues. The distribution of NOx allowances based on need must go through a public process and would take place between September 30, 2002 and May 1, 2003. Any NOx allowances that are not distributed by May 1, 2003 will be retired by the U.S. EPA.

Considerations with a Compliance Supplement Pool (CSP):

Should all of the CSP be retained for early reduction credits?

Should the CSP be divided in half and 50% retained for early reduction credits and 50% retained for demonstration of need?

Should all of the CSP be retained for demonstration of need?

ISSUE

New Source Set-Aside

In the final federal rule, the U.S. EPA included provisions for a new source set-aside account with the model emissions trading rule. The rule requires that new sources subject to the trading program must hold NOx allowances to cover their NOx emissions during the ozone season. The new source set-aside account is intended to provide new sources with NOx allowances until the next program-wide allocation process is conducted and the source would receive NOx allowances with all of the other sources in the trading program. With the timing and allocation methods that the U.S. EPA included in the model trading program, a 5% set-aside was proposed for the years 2003, 2004, and 2005. This set-aside was intended to address growth and new sources that started operating after May 1, 1995. Starting in 2006, the U.S. EPA proposed a 2% set-aside account. This is intended to be large enough to address new sources that begin operating after May 1, 2003. These percentages were based on an assumption by U.S. EPA of regional growth of 0.5% per year.

The new sources would be allocated allowances in the same manner and at the same rate as existing sources. Any unused allowances that remain in the set-aside account after a control period would be distributed among the existing sources in the trading program. States are not required to adopt the 5 % and 2 % thresholds and depending on the allowance allocation methodology chosen by an individual state, other percentages may be more appropriate.

The U.S. EPA states in the final federal rule that states have the flexibility to establish any size set-aside (including zero), may allocate the set-aside in any manner, and may carry over unused allowances or distribute the allowances to existing sources. This flexibility is provided as long as the new sources are required to hold allowances.

Considerations for new source set-aside accounts:

Should the rule adopt the criteria in the model trading rule (5% in 2003, 2004, 2005; 2% in 2006 and thereafter)?

Should any set-aside be established (0%)?

Should the rule adopt a single percentage (2%, 5%, X%) starting in 2003?